

FY 2024-25

Mid-Year Financial Status Report



**City Administrative Officer
Matthew W. Szabo**

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C.F. 24-0600-S114



OVERVIEW

1. Revenues
2. Overspending
3. Reductions
4. Reserve Fund
5. Key Recommendations



Key Takeaways

The City is facing **serious financial headwinds**.

The financial conditions are exacerbated by the **recent wildfires**.

There are significant **financial uncertainties due to federal actions**.

Immediate spending reductions are required, and we must prepare for further reductions if revenues continue to decline.

Revenues



Revenues | FY 24-25 To-Date



45.9%
of Annual GF Revenues
Received

through January 2025



Revenues | FY 24-25 To-Date



Largest variances in:

Sales Tax	(\$24.6M)
Transient Occupancy Tax	(\$14M)
Property Tax	(\$12M)*
Business Tax	+\$13M
Grants Receipts	+\$12M
Departmental Receipts	+\$9M

Notable variations include emergency ambulance billing primarily due to the receipt of prior-year funds

* The shortfall in Property Tax has increased to \$34.7 million with February receipts.



Revenues | Downside Risks

Sales Tax



Rising **unemployment & slow economic recovery** after rate cuts

Uncertainties from **immigration actions, tariffs, federal funding reductions & layoffs**

Economic impact of the **wildfires**

Property Tax



Anticipated **reassessments of properties damaged** by the wildfires

12-month extension of **property tax relief** for those zip codes

Business Tax



Last FY's shortfall (\$41.6M)

State legislation reducing **cannabis-related taxes**

Business tax relief in response to the wildfires

Transient Occupancy Tax



Not yet at pre-pandemic levels
Lagging recovery in Chinese tourism (CA's 3rd largest int'l market)

Impact of the **wildfires**

Political and trade disputes

Projected 10% **decline in Canadian tourism**
CA's 2nd largest int'l market

Expenditures



Expenditures | FY 24-25

\$300M

Projected Overspending
as of December 2024
plus windstorm & wildfire events

Fire <i>Includes January wildfire response costs</i>	\$98M
Liability Claims <i>Reflecting projected spending of \$320 million, which is \$220 million above budget</i>	\$95M
Police <i>Includes January wildfire response costs</i>	\$26M
Human Resource Benefits <i>Due to benefit and workers' compensation costs</i>	\$20M
City Attorney	\$14M



Solutions



Solutions | Overview

\$190M

Solutions in Mid-Year FSR



\$30M

Potential Future Solutions



Solutions | Reductions

\$76M

in Budget Reductions

No position eliminations

Reflects current spending trends

\$15.4M

Salary Accounts

\$20.4M

Contractual Services

\$14.8M

Expense Accounts

\$25.4M

Non-departmental Accounts



Solutions | Remaining Balance

\$80M

Unresolved Overspending



City Reserves



City Reserves | Snapshot

Account		Adopted Budget Amount	Balance after Mid-Year FSR*
Reserve Fund		\$407M (5.07%)	\$258M (3.22%)*
Budget Stabilization Fund		\$204M	\$206M (2.57%)
Unappropriated Balance	<i>Reserve for</i> Mid-Year Adjustments	\$59M	\$0
	<i>Reserve for</i> Extraordinary Liabilities	\$20M	\$0
	Dept. Payroll Reconciliation	\$105M	\$0



Reserve Fund | Adopted Budget

Slightly Above the

5%

required minimum



Reserve Fund | FY 23-24 Year-end Closing

4.12%



Reserve Fund | Second FSR



Reserve Fund | Current Status



Reserve Fund | Impact of Overspending

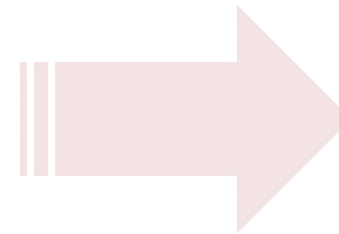
\$80M

Unresolved Overspending



Reserve Fund | If used for remaining overspending...

2.22%



Below the 2.75%
Emergency Level:
requires the City to
make a finding of
**urgent economic
necessity**

Issues of Concern



Issues of Concern | Judgement Obligation Bonds

Initial JOB issuance target was **\$80 million**

To replenish ~1% of Reserve Fund

Council approved **two reimbursement resolutions** to date

For a total of approximately \$18.3 million



Therefore, the CAO no longer recommends proceeding with a JOB issuance.

Issues of Concern | Federal Actions

77

Grant funding opportunities canceled

Seven (7) of which are grants City departments have received in the past

27

Grant programs postponed

Including the U.S. Department of Interior's WaterSMART grant program, impacting (5) grant applications submitted by LADWP and LASAN

*Federal
Grant
Guidance*

Requires not operating programs that promote “diversity, equity, and inclusion” or “gender ideology”

Key Recommendations



Key Recommendations

1 Keep the Reserve Fund above the 2.75% level

2 Approve all reduction proposals

3 Anticipate further reductions in FY 25–26

Key Recommendations | FY 2025-26 Budget

Restore the Reserve Fund to the 5% minimum

Prepare for difficult decisions on service reduction or position eliminations

Increase appropriations in obligatory accounts that are now regularly underfunded

e.g. the Liability Claims Account

Return solid waste fees and street lighting assessments to levels that achieve reasonable cost recovery





Office of the City Administrative Officer

cao.lacity.org

March 2024